

Message Text

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E.O. 11652: N/A
TAGS: MARR NATO
SUBJECT: ACE MOBILE FORCES (AFM) EXERCISE ATLAS EXPRESS,
1976 - AIRLIFT CHARTER RATES FOR US AIRCRAFT

REFS: (A) USNATO 4883, 071536Z JUNE 77; (B) STATE 132597,
082202Z JUNE 77

SUMMARY. MESSAGE REPORTS VIEWS OF CERTAIN MILITARY
BUDGET COMMITTEE (MBC) MEMBERS REGARDING US INCLUSION
OF INTEREST AND DEPRECIATION AS ELEMENTS OF COST IN MILI-
TARY AIRLIFT COMMAND (MAC) BILLING FOR US AIRLIFT SUPPORT
TO ACE MOBILE FORCES (AMF) EXERCISE ATLAS EXPRESS, 1976.
SHAPE PAID BILL LESS INTEREST AND DEPRECIATION. COMMITTEE
AGREED WITH ACTION OF SHAPE. PURPOSE OF THIS MESSAGE IS
TO INFORM WASHINGTON OF COMMITTEE VIEW. END SUMMARY.

1. THE MILITARY BUDGET COMMITTEE (MBC) RETURNED TO THE
ISSUE CONCERNING THE INCLUSION OF INTEREST AND DEPRECIA-
TION IN US CHARTER RATES FOR AIRLIFT SERVICES PERFORMED
ON BEHALF OF CERTAIN NATO EXERCISE PARTICIPANTS. REF A
RECALLED THE MBC'S POLICY, I.E., THE REJECTION OF THE
INCLUSION OF INTEREST AND DEPRECIATION IN AMF AIRLIFT
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CHARTER RATES AND ADVISED THAT AMF EXERCISE ATLAS EXPRESS
1976 US AIRLIFT BILLING WAS ON MBC AGENDA.

2. DURING THE MEETING, IT WAS LEARNED SHAPE HAD PAID
THE US AIRLIFT BILL LESS THE PORTION RELATING TO INTEREST
AND DEPRECIATION IN CONFORMANCE WITH MBC POLICY. THE
MAJORITY OF THE COMMITTEE AGREED WITH SHAPE'S ACTION.

3. THE US REPRESENTATIVE REPEATED HIS EXPLANATION (SEE REF A). THE COMMITTEE CHAIRMAN (BATUK), NOTING THE VIEWS OF THE GERMAN, UK, AND BELGIAN REPS (GERTZ, ASH, AND COL VAN DEN BRANDEN, RESPECTIVELY), SUMMARIZED THE COMMITTEE'S VIEWS AS BEING A VOTE FOR CONTINUANCE OF ITS POLICY REGARDING AIRLIFT RATES, I.E., THE EXCLUSION OF INTEREST AND DEPRECIATION COST ELEMENTS FROM AMF EXERCISE AIRLIFT BILLINGS, AND INVITED THE US REP TO ADVISE HIS AUTHORITIES ACCORDINGLY.

4. THE US REP WAS APPROACHED (FOLLOWING THE MEETING) BY BOTH THE UK AND GERMAN REPS URGING HIM TO SEEK THE AMENDING OF US CHARTER RATES TO REFLECT MBC POLICY. THEY WARNED THAT FAILURE TO DELETE INTEREST AND DEPRECIATION AS AN ELEMENT OF AMF EXERCISE AIRLIFT RATES WOULD LEAD TO INCLUDING THESE COST ELEMENTS IN THEIR GOVERNMENTS' TARIFF RATES, WITH THE RESULTANT INCREASE IN NATO EXERCISE COSTS IN FUTURE YEARS. SINCE THE AIRLIFT BILLS WERE PAID BY NATO FROM THE O&M, COMMON FUNDED BUDGET, THEY FOUND IT DIFFICULT TO UNDERSTAND THE US REASONING BEHIND AN INSISTENCE THAT INTEREST AND DEPRECIATION COST ELEMENTS SHOULD BE INCLUDED IN BILLINGS TO ALLIANCE MEMBERS. THEY APPRECIATED THAT DOD COSTING DIRECTIVES AND CURRENT MAC AIRLIFT RATES WERE IN RESPONSE TO CONGRESSIONAL DEMANDS FOR "FULL COST RECOVERY". THEY COULD AGREE WITH THE LIMITED OFFICIAL USE

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PRINCIPLE AND MOTIVATION FOR "FULL COST RECOVERY" BUT QUESTION THE COST ACCOUNTING VALIDITY OF ITS APPLICATION TO NATO ALLIANCE MEMBERS, SINCE IT ONLY SERVED TO INCREASE THE COMMON-FUNDED COST OF NATO EXERCISES WHICH, IN TURN, INCREASED THE US CONTRIBUTION TO THE MILITARY BUDGET.

5. WE APPRECIATE WASHINGTON EFFORTS TO GAIN APPROVAL OF A LOWER USG RATE FOR AIRLIFT IN SUPPORT OF NATO EXERCISES (REF B) AND URGE THAT EFFORTS CONTINUE. STREATOR

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